Volume 1 | Issue

Muslim Philanthropy

JOURNAL OF THE ACADEMY OF PHILANTHROPY

Contributor's Copy
Please do not distribute

eJournal may be purchased through academyofphilanthropy.org

Impact, Investing & Philantropy

Academy of Philanthropy

Editor: Dr Yunus Sola

Academy of Philanthropy

The Academy of Philanthropy acts as the consulting, research, academic and training branch of the World Congress of Muslim Philanthropists and is in a unique position to draw on the expertise, knowledge, and the network of the World Congress of Muslim Philanthropy. The Academy offers a unique source and blend of keynote speakers, workshop leaders and providers dedicated to promoting effective, efficient and accountable giving in the Muslim World. Our network is unmatched in this sector.

The Journal of Muslim Philanthropy
The Academy of Philanthropy

ISBN: 978-0-9576859-2-5
Editor: Dr Yunus Sola
Reprints and permission: The Academy of Philanthropy
Design and Layout: Edbiz Consulting
http://www.edbizconsulting.com


Contents

Social Impact Measurement and the Muslim World:

Making Impact Grants Using the Accounted Impact Method

Grayson Bass

With a motto of "Imagine. Innovate. Build." Grayson has formed and lead strategy initiatives and operations for start- ups and to established multinationals around the world focusing on Innovation and Product/ Portfolio Management. He is a Teacher, Leader and Inventor with a track record of building and managing diverse teams around the world. Grayson spent two years in Latin America and nearly 5 years in Asia. During this time he worked as a Director for one of the Top 10 Training Centres in China; advised banks, law firms and Fortune 500 clients on their strategy in Asia and ran a small import/export business. A person of diverse interests and experiences, he has worked with companies involved in Energy, IT, Private Equity, International Trade, Manufacturing, Licensing of Intellectual Property, R&D, Socially Responsible Businesses, Advertising, and Education. This depth and breadth of knowledge has allowed him to bring a unique skill-set in how he approaches and leads organizations and a unique capability to find order in chaos. He researches networks and social economic measurement and has a passion for social justice and economic empowerment.

Abstract

It is generally believed that actions taken to benefit the social good of a community have a positive impact on recipients as well as donors. This is the underlying rational for zakat. What has been less understood is how to accurately and efficiently measure such an impact and then translate that value into a tool that provides information which directly influences the operating activities of a company, social enterprise or non-profit. In this paper I will present a method of assessing the economic value of social impact as well as a measurement tool to assess effectiveness of philanthropic programs.

Findings summary

Using a novel approach of researched measurements, generally accepted accounting principles, and economic measurement; a universal accounting and measurement tool has been developed and used to provide governments, organisations, and communities with the ability to accurately measure the impact of a business social positive or negative effects - effectively rating the effectiveness and return on a grant. The implications of such a measurement have direct impact on grant making, government spending, and investment decisions. This suggests a direct role for organisations in decision making as well as a role for government officials in policy design. The five organisations profiled are representative of three granting areas.

These areas are: Children, Education, and Health & Human Services (H&HS). All of the organisations selected currently receive grant dollars from a respected and well known corporation. This corporation is universally known as a responsible corporate giver and the selected organisations were hand picked at the board level. The research was done in collaboration with this corporation in order to provide best practices and to provide a baseline report for the corporation on their grant giving in line with the Accounted Impact Method. In all but one case, the data set covers five years of audited financial statements and has been reviewed by each organisation for accuracy as well as by the granting corporation.

The summary chart below shows the overall impact.

The chart summarises the key findings of the research, the Economic Impact of Social Good - represented in the Accounted Impact Method formula by the AVs value - giving us the relative economic impact ratio of an organisation within its community. It also allows us to calculate the economic impact of an organisation within its community in terms of actual impact and its total return on grant dollars. The Program Return measures the value of a grant in context to services delivered by an organisation. This shows the effectiveness of grant dollars within the target community and is an organisation's net impact. As an example, Organisation A provides a social impact to its community equivalent to $2.96 for every dollar granted to the organisation, and the net effectiveness of its programs provide $1.81 for every dollar received. The $1.81 return for each dollar spent represents the direct value gained by its target constituency.

Organization	Economic Impact of Social Good	Program Return
A: EDUCATION	2.96	1.81
B: H&HS	4.88	2.42
C: CHILDREN	3.44	0.89
D: EDUCATION	2.25	0.61
E: CHILDREN	1.95	0.91

The value of this method to philanthropists is that it quickly and efficiently reveals the effectiveness and value of a program and organisation within its community. First, it offers philanthropists a means to gauge the expected return on investment for each grant dollar given. In the case of Organisation A, we observe that the organisation provides nearly a 3X return on grant dollars as a member of its community. This suggests that it brings value to the community through economic activity, employment, assets that add value to the community as well as its program activities. It also gives organisations insight into the health of an organisation and its ability to continue operating - signifying a safe organisation to give grant dollars. By taking historical trend data we are also able to assess the projected impact of a future grant in both relative and exact dollar amounts.

Second, the method provides insight into the effectiveness of the organisation's programs. Of the organisations profiled, it is evident that three of the five organisations profiled fall short of a one-to-one return on grant dollars raised to return to its target constituency. This relates directly to the program effectiveness. The reason for this could be due to several possibilities; the program in its current state may not be scalable or the organisation requires additional funding in order to achieve a positive return on grants. It may also signify a systemic problem in service delivery, i.e. high cost to access a specific population, high overhead at the organisation, or possibly ineffectual program activities, among other reasons. Using the method, philanthropic organisations can better analyse grant opportunities and decide if more money needs to be given, or if they should pass on a particular opportunity because of inefficiencies in the system or organisation.

Third, this creates a transparent and unbiased method to identify effective programs and offers a means for grantees to justify grant requests and grantors means to assess and recommend improvements. When a return on a grant's effectiveness dips below a one-to-one ratio, an opportunity arises to re-evaluate the systemic causes and nature of a particular community's ills and potentially invest in a new solution.

General background

Numerous companies and organisations have increasingly seen their investment in social good as a combination of public relations and social responsibility. However, there has not been an effective1 (Lawrey, 2010) or generally accepted way to construct and measure the economic value of social good. Because of this lack of data, grant making decisions have relied on (at best) a rule-of-thumb approach.

This has lead to a persisting and "inconvenient" problem both internally at corporations; when deciding what, where, how, and if it is justified to invest in social good, as well as at social enterprises and non-profits when constructing a viable - and by definition, profitable - model that allows them to achieve their desired ends with justified means.

Currently, most thought on the subject views social investment from constituency upwards - and most measurement tools try to solve this problem in a similar fashion. This has lead to varying (dis)abilities of calculating the actual benefit - and in many cases fails to realise the potentially negative effect on the end constituent's community or fails to accurately state the extent and depth of a community problem.

In February 2012 a Fortune Twenty-Five Company (The Company) began a project - that, while not the first to measure impact - was the first to undertake impact measurement using the Accounted Impact Method. The goal of the project was threefold: One) Deliver a baseline report to The Company on the impact of The Company's grant making activities, Two) Provide The Company with a means to accurately measure a grant's impact potential, and Three) develop a reporting framework to gauge effectiveness.

When beginning this project and setting the project goals, the concept was that this research would allow us to answer the challenges facing all Granting Organisations as well as Grantees. Specifically, would it be possible to quantify impact, could it be done with validity and ease using publicly available data and/or Financial Statements, and would this lead to a tool that would benefit Grantor and Grantee organisations? To our complete joy, the answer was, "Yes !"

These issues are of special note in developing and emerging markets where data is traditionally lacking. As the majority of the Muslim world (from Africa to Asia) is in the developing world, the ability to easily collect data and quantify impact is particularly difficult given current methods. Because this method is based on transactions and relative value to a community, it has the potential to show a greater ability to measure and gauge the impact of philanthropic giving in these regions.

The Accounted Impact Method was able to meet these challenges and aims to demystify, as well as provide a framework and standards to benefit decision making for Grant makers, and provide a tool for Grantees to more accurately view their relative impact. This has several benefits for the entire community of stakeholders.

First, by using the Accounted Impact Method to quantify impact, the guessing as well as speculation in measurement is removed leaving a more accurate assessment of the actual impact an organisation makes on a community. This varies from most (if not all) current methods, in that, only actual accounting measurements are used as opposed to using a forecasted valuation of impact, or measuring only the related program expenses to individuals served (efficiency). This makes the measurements of impact more reliable and more relevant to Grant Makers looking to maximise impact. As shown in the Methodology below, this method has a potential for high adoption in both developed countries as well as developing countries in the greater Muslim world as it mirrors most standard zakat calculations and would potentially be met with low resistance to adoption by practitioners.

Second, once impact has been correctly accounted for, Grantees have the ability to measure the return on their grant to the local community. This provides both a greater degree of transparency as well as the means to make better and more relevant program decisions. In the Muslim World, this has the potential to direct dollars towards programs that increase stability in the region as well as net the most positive effect in strengthening communities.

Finally, because the data is derived from Financial Statements - in many cases ones that have been audited by an outside firm - the data is readily accessible to anyone interested and can be easily dropped into the Framework. This removes a large burden on organisations trying to accurately gauge their impact and creates a clear and transparent valuation of impact. Simply put, we can now show what the value of a dollar will be once it goes to an organisation in a more accurate and complete manner. Because we can calculate this value, we can also begin to calculate the strength and stability of a target community or population.

Methodology

The Accounted Impact Method was developed over the past two years in conjunction with professors at Georgetown University in Washington DC and ESADE University in Barcelona. As opposed to looking for the “right answer ”, the project began with the goal of asking the “right” question. The answer lead to a breakthrough; change from measuring outcomes to measuring economic activity.

In continuing to develop the right question - and working with the hypothesis that economic activity both correlated and caused social change - the formula for Accounted Social Value (AVs) was developed. The formula, AVs = RE + A + GD + S, used here in evaluating the organisations in the Case Studies, pulls several key data points that make their use superior to current metrics. What practitioners in the Muslim world will notice is that this formula is a rearranged version of the zakat calculation for an individual2 (Islamic Relief, 2000). While this was not intentional at the outset of the project, it has created the opportunity for a seamless and low cultural barrier to adoption within the Muslim World.

These data points are briefly explained here:

AVs: This is the key output of the data and is used as a baseline in order to measure the return and projected impact of a grant. In the case studies below, each bar on the chart represents the total AVs of the reviewed organisations. The ratio between the Retained Earnings and AVs is what allows us to determine current year ’s impact, as well as forecasts the success and expected return of a future grant.

RE: Retained earnings (net income and in some cases, net change in assets) represents exact dollar value of the equity and contribution of an organisation within its community. While the measurements here were limited to the organisation as a whole, to increase accuracy measurement could be done specifically within communities where it operates. We have a clear example of how this would look in the Case Study on Organisation A.

A: The Assets of an organisation are specifically limited to and focused on Investments, Plant, Property and Equipment - anything that resides in the community and is used specifically for Program Delivery. This includes vehicles (in the case of Organisation B) and land and buildings (in the case of Organisation D and Organisation C). This measurement is a proxy for both the strength of the link and tie an organisation has to a community, as well as what added value is created for the community as a whole by importing or exporting value.

GD: Grants and Donations (GD) measure the Program value to a community. This metric is arguably the most critical as it purposefully strips assets from any program leaving it with what are the remaining costs - and therefore direct dollar value owned by the community. It is worth noting that this metric, while not a definitive measurement, is also an indicator of the scalability of a program.

When a program’s value lies mostly within its Assets or Salaries of employees, it could possibly indicate a reduced potential for direct community impact (though not a reduced potential for return), i.e. a grant with a low GD ratio may create community benefit, but not necessarily increased equity in that community exclusive of the organisation itself.

S: Salaries make up the final portion of the formula and are a proxy to the increased wealth in a community; what money is being used at the individual level within the community. This also includes, benefits, payroll taxes, and other services (human services) paid by the organisation. It also adds back in the liabilities of certain items related to wages and benefits found in the liabilities. Lastly, it includes volunteer hours (when In Kind Contributions are not added into Assets).

Impact Ratio: Based on the final calculations, this is the measured return on a Grant and provides the value of a Grant within its community.

Grants that contribute and target these leverage points will maximise contribution and create greater impact.

A case study approach

Profiled below are five organisations selected by The Company. This data set is certainly not extensive and should initially be taken as preliminary until additional data can confirm that the trends and impact measured here are applicable across multiple organisations, geographies, and time.

However, the initial findings are quite supportive of the hypothesis and go a long way in defining the important work that the selected organisations are engaged in every day. For example, Organisation C - as stated in their Corporate Social Responsibility Report - estimates a $220 million dollar benefit to the community. While impressive, under the Accounted Impact Method, this understates the total impact in the community by more than half its actual value.

Perhaps the greatest benefit of the Accounted Impact Method is that it is a highly cost- efficient way to gauge a grant’s effectiveness. Because it is based on accounting data, the findings are capable of taking the guess work and “gut feel” from making and justifying impact grants. Using data that is derived directly from an organisation’s balance sheet removes the burden of retaining consultants that specialise in uncovering and calculating the potential returns of a grant. It is also a quick way to determine the health of an organisation.

Surprise findings

-\fter the initial verification and review of the data, we noticed a surprising feature. The data allowed us to gauge the effectiveness of the actual program. To be clear, the Accounted Impact Method measures the direct impact (based on transactional data) that an organisation has on a community. This gives its relative share of “equity” within the community and the cost to replace that organisation if it went bankrupt or ceased operations. During this process of research and evaluation, we observed a second metric that appeared from the data and gave insight into the organisations. This metric rated the effectiveness of the programs within their communities.

What we learnt is that in three of the five organisations studied, the actual programs on a dollar to dollar evaluation, returned less than a dollar to its target community. In the cases of Organisation C, D and E, they returned $0.89, $0.61, and $0.91 respectively. When we take a closer look at the data, the possibility for several explanations appears: 1) The organisations have a high overhead, and their grant dollars raised are going to organisation maintenance instead of directly to the population that needs their services, 2) the cost to deliver these programs (consistently serving under-developed and low income populations and communities) has a “delivery premium”. The initial data indicates that there is a higher likelihood that option two - high delivery costs - is the cause for the “negative”3 returns. During the research phase and post follow up interviews, Organisations C, D, and E all felt that they were “short” in raising money, while not an uncommon problem or worry facing grantee organisations, this method highlights their concerns using empirical data, that they would require additional funding in order to have placed them in positive return territory. The benefit of this data is that we can now show grantors and foundations the exact shortfall in these organisations and what is needed to bring them to a net positive return for their grant dollars. This is a demonstrable leap forward in the world of philanthropic giving.

Conclusions

The initial research project has shown great promise. Not only was a problem of data collection solved, the ability to gauge effectiveness of both a grant and an organisation was achieved. There is a need for follow-on research that would look specifically at communities and then map their growth or decline using the Accounted Impact Method. In the Muslim world, opportunities to apply this method to targeted populations or communities could possibly yield more effective means of grant making or uncover systemic faults that limit delivery of grant dollars from achieving a positive return. This would allow the global Muslim community to increase effectiveness in removing the barriers of access for a community and more rapidly increase a community's wealth. Furthermore, it would benefit The Company, as well as other organisations, to analyse a larger portfolio of grantee organisations. Having a complete portfolio analysis would give Grantors the means to benchmark grant opportunities and more effectively target grants that yield a higher impact. It would also justify (in some cases) increased participation and funding to certain initiatives. There is a high potential that the data gleaned would be able to redirect some grant dollars and allow for a greater and sustained impact in various communities.

From an Islamic perspective, as giving is laid out in the Qur'an, there are degrees of where giving is to be targeted. Taken into practice, there is an argument that zakat and the entire framework for lending takes on a role of first shoring up the individual, family, and community, before engaging in larger and riskier grant making activities. Simply put, in the case studies of the three organisation that showed a "negative" return on grant activities, there is the beginning of an argument that grant money could be redirected from one or two of the Organisations into a different Organisation, in order to build up that community and better serve its constituents. This opens the door to a potentially difficult conversation on choosing grant making opportunities. In some cases - as in the case of Organisation C - there may be an accepted "cost" of its activities not reaching a full return as its overall value to the community, or effectiveness in delivering programs may be superior to other similar organisations in the area. In some cases, a certain organisation may be the only option for service/program delivery in a community. This requires additional study to effectively make such a decision but the foundations for a data-based approached have now been put in place. The positive side is that we now have the data to accurately begin a conversation about the impact of these decisions and have the framework of a decision matrix that will allow individuals and foundations to make better grant decisions with the potential to increase impact and more rapidly address issues within their target communities.

The global community of Muslim philanthropists, as well as philanthropists of other faiths, give with the hope that God will accept their offering and that their charitable giving will contribute to their well being in both this life and the next. Because a premium is placed on granting and directing dollars to ongoing trusts, or to specific target populations (particularly orphans, from an Islamic perspective), the argument to increase effectiveness of measurement - and thereby increase the reach and effectiveness of a grant - potentially has a direct impact on how Muslims make granting decisions that have an effect in both this life and the next. As always, God Knows Best.

ORGANISATION A

Quick View:

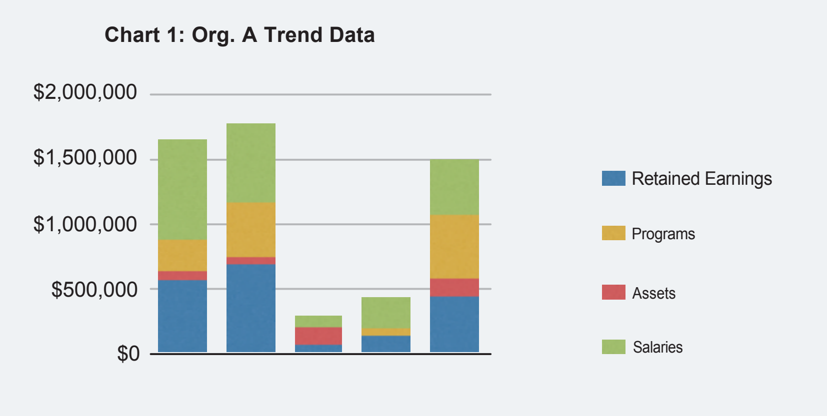
2011 AVs Value: $14,128,538

Impact Ratio: 2.96

Impact Trend: N/A

2011 Company Grant: $765,500

Grant Impact: $2,264,845



Overview:

Organisation A operates under an affiliate model where funds which are raised centrally at the state level are distributed to various community chapters. Combined, the Washington State organisations create an average community impact of $2.96 for every dollar they receive and a total AVs of nearly fifteen million dollars in 2011. Decoding the Data:

King and Pierce counties each combine five cities into their AVs. It is clear by the graph above that the majority of Grant Dollars are spent on Programs and Salaries which stays in the communities they serve. This leads to a high degree of relevant local impact and ties within the community.

One important point to note, while graphically the AV for Whatcom and Spokane are obviously smaller than the WA HQ state office and King and Pierce Counties, their Impact Ratio is higher than the combined average. Organisation -\ affiliates may benefit from increasing assets in the communities where they operate to increase local ties.

Comments:

The data from Organisation A has not been audited and the accounting standards and formats between the various organisations varied greatly (which explains the slightly skewed Whatcom bar). However, based on the data, we can estimate that Organisation A's Impact Ratio in the communities where it operates is a healthy $1.81 for every program dollar spent.

ORGANISATION B

Quick View:

2011 AVs Value: $101,043,143

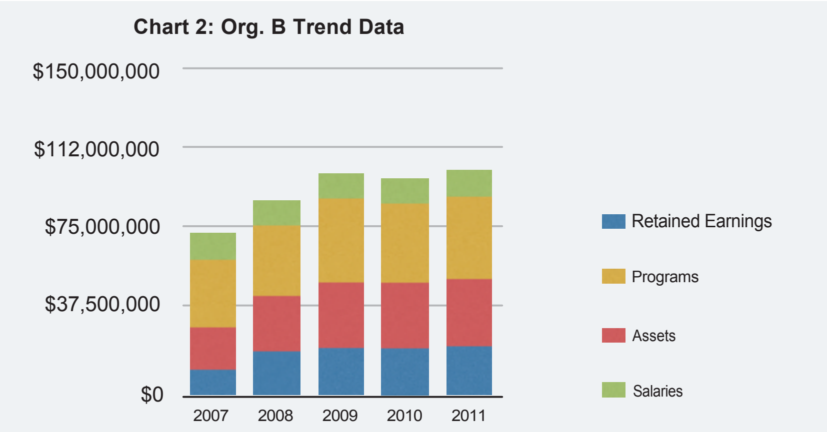
Impact Ratio: 4.88

Impact Trend: Mixed

2011 Company Grant: $15,200

Grant Impact: $74,126

Overview:



Organisation B returns nearly 5X the value of the Grants they receive to their local community. They maintain a healthy balance of Assets in relationship to Equity.

The Estimated Impact for a 2012 Grant, based on historical trends: $4.79 - $4.96 per dollar.

Decoding the Data:

Organisation B maintains a healthy spend on programs, in relation to its programs, salaries and assets. While the Impact Trend is "Mixed", in terms of what a grant will return based on historical performance, Organisation B has maintained an overall positive trend over the past five years. This is evident in that it has a net positive return on dollars spent on programs.

Comments:

Organisation B operates in several cities outside of its home office. While the financials were audited, they were not geographically broken down. The Accounted Impact Method specifically measures an organisation's impact and contribution within its community. Based on the data - and subtracting Assets and Retained Earnings, we can estimate that Organisation B's Impact Ratio in the communities it where it operates is a healthy $2.42 for every program dollar spent.

ORGANISATION C

Quick View:

2011 AVs Value: $4,800,635,000

Impact Ratio: 3.48

Impact Trend: Positive

2011 Company Grant: $2,204,2

Grant Impact: $7,661,283

Overview:

Organisation C returns nearly $3.50 in value to the community for every dollar it receives.

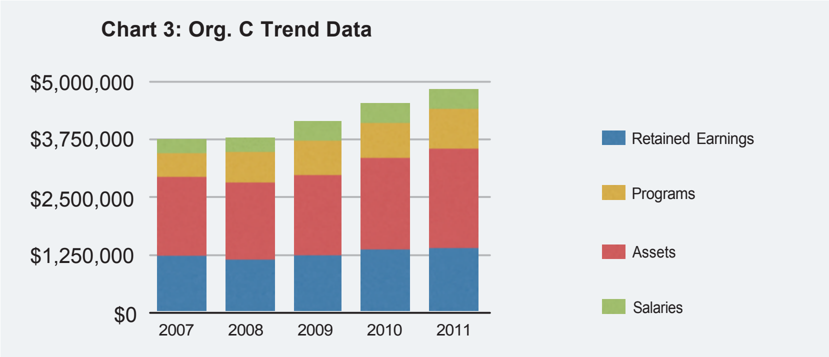
The Estimated Impact for a 2012 Grant, based on historical trends: $3.48 - $3.54 per dollar.

Decoding the Data:

As both a teaching and research hospital, -\ssets make up a significant portion of the hospital's impact on the community. Programs are spread across several areas, though charity care (by far) and research make up the largest portion of the Program activities.

Comments:

All of Organisation C's information was audited. While there is a small discrepancy between the published CSR Report and



the audited statements, (due to a change in the reporting requirements requiring a restatement) this was immaterial.

I have chosen to leave out certain items featured in the CSR Report that were not specifically mentioned as line items in the audited statements. Because a hospital requires a large number of fixed assets, the .89 return on program activity may be related the systemic costs that make program delivery in healthcare so high. Benchmarking this organisation against other regional hospitals could provide better insight into the relative effectiveness of its program activities.

ORGANISATION D Quick View:

2011 AVs Value: $14,128,538

Impact Ratio: 2.25

Impact Trend: Positive

2011 Company Grant: $50,000

Grant Impact: $112,270

Overview:

Organisation D returns $2.25 to the community for every grant dollar raised.

The Estimated Impact for a 2012 Grant, based on historical trends: $2.25 - $2.38 per dollar.

Decoding the Data:

An addition of assets in 2010 and 2011 has lead to a noticeable increase in the Impact Ratio for Organisation D. While the AVs Value has fluctuated between 2008 and 2011, the Impact Ratio has made a consistent and steady upward trend. This could indicate that the systemic faults that increase the cost of service delivery are being addressed effectively by the organisation, or that the organisation is becoming more effective at delivering programs to its target community.

Comments:

An additional bump in Assets in 2011 comes from my inclusion of a $1,500,000 grant mentioned in the audited Financial Statements. Additionally, in 2010 and 2011, there was an increase in assets due to development of real- estate.

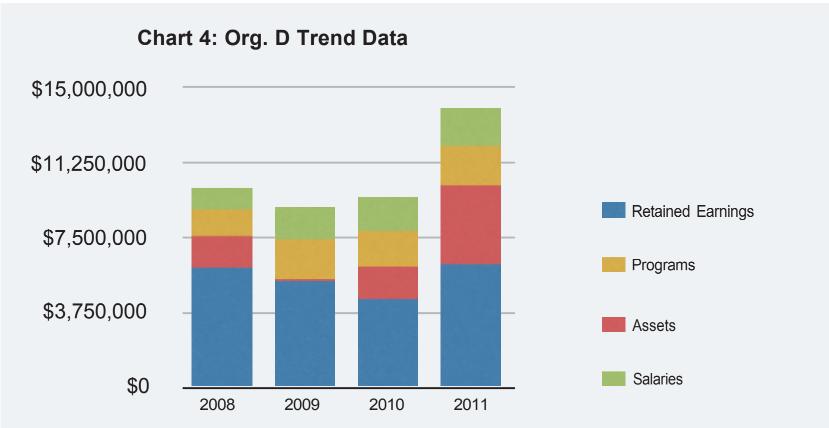
The relatively uniform and consistent uptrend in Impact (from 1.66 in 2008 to 2.25 in 2011) is a positive sign of not only growth but consistent community impact from education.

ORGANISATION E Quick View:

2011 AVs Value: $11,957,361

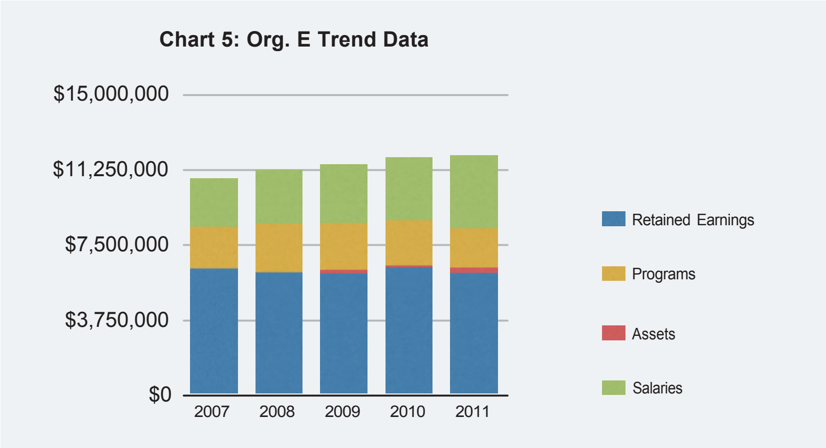
Impact Ratio: 1.95

Impact Trend: Mixed



2011 Company Grant: $20,000

Grant Impact: $39,029



Overview:

Organisation E nearly doubles every dollar in terms of creating impact. Not surprising, given that Programs and Salaries nearly match Retained Earnings.

The Estimated Impact for a 2012 Grant, based on historical trends: $1.88 - $2.02 per dollar.

Decoding the Data:

Organisation E rents its current space and could potentially benefit from owning additional assets.

Organisation E's Impact Trend is "Mixed" due to a small dip (having since completely recovered) in 2010. Their AVs Value steadily improved every year during the period studied.

Comments:

While Salaries surpass Programs, this is a result of Organisation B's high requirement on human capital to deliver programs. The Accounted Impact Method separates human capital expenses from direct program expenses in order to identify exact benefit to the targeted community.

References

1. Lawrey, Steve., 2010. When Too Much Rigor Leads to Rigor Mortis: Valuing Experience, Judgment and Intuition in Non profit Management. Hausercenter.org blog, [blog] 12 July, Available at: <http://hausercenter.org/ iha/2010/07/12/when-too-much-rigor-leads-to-rigor-mortis-valuing-experience-judgment-and-intuition-in-nonprofit-management/ [-\ccessed 31 -\ugust 2012]

2. Islamic Relief, 2000 - 2011. Islamic Relief Zakat Calculator. [online] Available at: <http://www.islamic-relief.com/zakat/calculator.aspx [Accessed 31 August 2012]

3. This does not imply that a grant is necessarily subtracting value from stakeholders, it means that there is an inherent delivery flaw that keeps the full value of a dollar from entering the community. This flaw is either systemic to the community or the organisation. More research is needed to shed light on this data point.